

Media Release:

Fortune Motors Co. Ltd. 'twA/twA-1' Ratings Affirmed On Steady Financial Profile; Outlook Stable

December 19, 2024

Overview

- **Fortune Motors Co. Ltd.** has maintained stable credit metrics over the past few quarters, which we expect to continue over the next one to two years.
- We have affirmed our 'twA' long-term and 'twA-1' short-term issuer credit ratings on Fortune Motors.
- The stable rating outlook reflects the company's strategically important group status to its parent China Motor Corp., and our view that Fortune Motors will maintain its very strong capitalization over the next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on Fortune Motors. The outlook on the ratings is stable.

Rationale

The affirmation reflects the company's sustained very strong capitalization, as well as the benefits from its association with the China Motor group in terms of new car sales and financing business.

Fortune Motors' good earnings ability and lower growth appetite than the domestic peer average also underpin the company's very strong capitalization. Counterbalancing these strengths are the company's more relaxed underwriting standard compared with those of local banks, albeit similar to financing peers. In addition, Fortune Motors is dependent on market-sensitive wholesale funding which is an industrywide characteristic of finance companies in Taiwan.

Fortune Motors has maintained satisfactory asset quality for its car installment receivables which compares favorably with its domestic peers. We believe this stable asset quality supports the company's adequate earnings stability despite its small scale.

We view Fortune Motors as a strategically important subsidiary of the parent China Motor group. We believe the finance company will continue to benefit from its close association with the parent in terms of new-car sales and financing business. Fortune Motors' stand-alone credit profile is similar to the China Motor group credit profile.

PRIMARY CREDIT ANALYST

Serene Hsieh, FRM, CPA
Taipei
+886-2-2175-6820
serene.hsieh
@spglobal.com
serene.hsieh
@taiwanratings.com.tw

SECONDARY CONTACT

Yuhan Lan
Taipei
+886-2-2175-6810
yuhan.lan
@spglobal.com
yuhan.lan
@taiwanratings.com.tw

Outlook

The stable rating outlook on Fortune Motors reflects our view that the company will remain strategically important to its parent China Motor group. The outlook also reflects our opinion that China Motor's overall market position could come under pressure in 2025 due to a revision to the local content rule for automobiles, which could hit the sales volume of MG branded cars.

However, the group's introduction of new car models in commercial and passenger car segments over the next one to two years should help support its market share. In turn, this should support its profitability, despite ongoing competition and volatility in the domestic auto market.

Meanwhile, we acknowledge that China Motor's sustainable operating cash flow generation, prudent capital expenditure, and sufficient cash on hand should continue support the company's net cash position over the next two years.

Downside scenario

We may lower the rating on Fortune Motors if:

- China Motor's overall share of Taiwan's auto market deteriorates to below 8% without signs of recovery, possibly due to a materially weakened market position in commercial and passenger car segments under intense industry competition; or
- China Motor's EBITDA margin weakens to consistently below 8%. This could result from: 1) erosion in the company's cost competitiveness due to the revised local content rule, or a material sales loss that leads to a low utilization rate, resulting in deterioration to its core business's profitability, or 2) China Motor's cash dividends from equity method investments fall materially below our expectations, possibly due to rising competition in China commercial auto market.

We could also lower the long-term rating if Fortune Motor's stand-alone credit profile deteriorated, possibly because the company cannot maintain its capitalization at a very strong level as reflected by the risk adjusted capital ratio rising above 15%. However, we believe this is unlikely over the next two years.

Upside scenario

We could consider upgrading Fortune Motors if the China Motor group acquires a considerable market share from its competitors in commercial and passenger car segments, and we believe such improvement is sustainable. At the same time, Fortune Motors' stand-alone credit profile would need to improve following material improvement in its business stability to be comparable with that of the top industry leaders in Taiwan.

However, we see a low likelihood of this over the next two years, given China Motor faces intense competition in the domestic auto market, along with the impact of the revised local content rule.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

Fortune Motors Co. Ltd.

| | |
|----------------------|------------------|
| Issuer Credit Rating | twA/Stable/twA-1 |
|----------------------|------------------|

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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